

Press Release

Covid-19 threatens to hit India's growth trajectory further

Risk of GDP contraction by 5%-6% in Q1FY21

The rapid spread of Covid-19 has not only disrupted the global economy but has also triggered a partial shutdown in many parts of India from early March and an almost complete shutdown from the last week of March 2020. While the countrywide shutdown is scheduled to be lifted from April 15, 2020, the risks of a prolonged disruption in economic activities exist depending on the intensity of the outbreak. Clearly, it will be an understatement to say that the ongoing disruption will have a significant economic consequence across the world and also in India. IMF has already forecast a recession for the global economy in CY20.

Sankar Chakraborti, CEO, Acuite Ratings & Research, said “Acuite Ratings estimates that every single day of the nation-wide lockdown will cost the Indian economy almost USD 4.64 billion. Consequently, the 21 day lockdown will result in a loss of GDP of almost USD 98 billion. We have employed multiple methods to assess real GDP estimates for Q1 FY21 and believe that there is a significant risk that it may contract up to an extent of 5%-6% as compared to a pre-Covid growth estimate of 5%.”

In such a lockdown scenario, the sectors that are most severely impacted are transport, hotel, restaurant and real estate activities. In our opinion, there would be at around 50% GVA (gross value added) loss in these sectors, which account for around 22% in overall GVA, in Q1 of FY21. On the other hand, the services that are expected to see enhanced activities during this crisis are communication, broadcasting and healthcare; however, at 3.5%, these sectors have a small contribution in the overall GVA. The impact of the lockdown is also fairly severe on industrial activities which is set to witness significant contraction in Q1 except in the pharmaceutical, gas & electricity and medical devices which account for around 5% of GVA. Unlike the services sector, the industry, however can manage demand to some extent with inventory drawdowns until the resumption of production. **Says Karan Mehrishi, Lead Economist, Acuite Ratings & Research “The agricultural sector which accounts for 15% of GVA, is nonetheless, expected to see continuing activity even in the lockdown period; however, the allied activities are partly impacted as livestock and fisheries are experiencing muted demand due to the Covid-19 concerns.”**

We believe that it would take at least 2-3 months to restore the industry supply chain even if the lockdown is limited to 21 days; there are also further risks of local lockdown in various regions of the country depending on the extent of the outbreak and partial disruption in economic activities till H1FY19 is a realistic scenario. Acuite estimates that the second quarter may show a moderately positive growth of just under 3% on the back of the expected normalization process and some pent up demand although it is also linked to the intensity of the pandemic.

On the positive side, a quick recovery in the domestic economic activities is likely in H2, which may in turn benefit from the increased fiscal and monetary measures along with lower global oil prices. We therefore, believe that the average H2 GDP expansion may be in the vicinity of 6.5%. Overall, a likely contraction in Q1 followed by a modest growth in Q2 will clearly have a severe impact on India's economic trajectory that has already been under the effect of a prolonged slowdown. **Adds Mr. Chakraborti “On a quarter-wise analysis, we expect the overall GDP growth for FY21 to be in the band of 2%-3%.”**

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About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in BKC, Mumbai.

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